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EMPLOYMENT AND SOCIAL DEVELOPMENTS IN EUROPE 2024
Executive summary

Executive Summary

UPWARD SOCIAL CONVERGENCE IN THE EU AND

THE ROLE OF SOCIAL INVESTMENT

This edition of the *Employment and Social Developments in Europe* (ESDE) review examines patterns and developments of social convergence in the EU over the last decade, showing important catching-up trends among Member States. It discusses the role of social investment in supporting social and economic developments, providing evidence of the impact of selected policies on socioeconomic outcomes. It also examines how policies on housing, social protection, and green reforms and investment can support upward social convergence.

Chapter 1: Main economic, labour market and social developments

In a context of broad economic stagnation in 2023, labour markets continued to be remarkably resilient and social outcomes showed some signs of improvement. In the wake of the COVID-19 pandemic, Russia's ongoing war of aggression against Ukraine, and the ensuing energy crisis, EU economic output barely increased and the cost of living remained high, against a reduction in inflation. Social outcomes improved slightly, with declining at-risk-of-poverty (AROP) indicators and improving average real income. However, energy poverty increased. The outlook for 2024 points to a gradual expansion of gross domestic product (GDP) amid high geopolitical risks.

In 2023, economic growth in the EU lagged behind other advanced economies. The EU witnessed a 0.4% increase in real GDP, down from 3.4% growth in 2022 and 6% in 2021. Net exports were the primary driver of the modest increase in real GDP, with both private and public consumption giving only a slight impetus to GDP growth, and investment contributing negatively. The forecast for economic growth in 2024 is 1.0% for the EU and 0.8% for the euro area.

While inflation has been growing since the second half of 2021 in both the EU and the euro area, it slowed significantly in 2023. In December 2023, annual inflation in the EU reached 3.4% (2.9% in the euro area), a reduction of 7 percentage points (pp) compared to December 2022 (6.3 pp in the euro area). Inflation in the EU is predicted to decline from 6.4% in 2023 to 2.7% in 2024 (from 5.4% in 2023 to 2.5% in 2024 in the euro area).

In 2023, the EU employment rate reached the record-high level of

75.3%

The labour market remained robust despite slower economic growth. Alongside modest GDP growth, total employment increased by 1.2% in the EU and 1.4% in the euro area in 2023. Employment growth was driven by job creation in trade, transport, accommodation, and food services activities. Employment levels reached record highs, with 216.5 million people employed in the EU and 168.7 million people in the euro area (2.6 million and 4.1 million people more than in 2022, respectively).

The employment rate also rose to record heights in 2023, but at 75.3% in the EU (74.7% in the euro area), and 75.7% in Q1 2024, further efforts will most likely be needed to reach the EU employment headline target of at least 78% by 2030. Five Member States have already reached their national targets and 13 have rates beyond the EU headline target. For the first time, the employment rate for women was over 70% and the gender employment gap narrowed to a record low of 10.2 pp in 2023 (-0.5 pp compared to 2022). Further improvements will be necessary to halve the gender employment gap of 2019 (which stood at 11.3 pp) by 2030, a commitment outlined in the European Pillar of Social Rights Action Plan. Women are still overrepresented among temporary and (especially) part-time workers, at 28.5%, compared to 8.4% for men.

The unemployment rate decreased slightly in 2023, falling to historically low levels. The EU unemployment rate in 2023 was 6.1% (-0.1 pp) (6.6% in the euro area, -0.2 pp), with a rate of 6.4% for women and 5.8% for men (6.9% and 6.2%, respectively, in the euro area). At the same time, the youth unemployment rate remained stable, at 14.5% in both the EU and the euro area (+0.1 pp), with young women's unemployment rates lower than those of young men. In 2023, the long-term unemployment rate declined to 2.1% in the EU and 2.4% in the euro area.

Against the background of a robust labour market, companies experienced labour and skills shortages in 2023. Job vacancies remained at record high levels (2.9% for 2023 and 2.6% for Q1 2024), with many companies struggling to recruit and possibly deciding to retain workers even if not fully utilised (so-called labour hoarding). Although declining shortages in the industry sector led to a slight fall in the overall labour shortages indicator in 2023, labour and skills shortages remain at historically high levels and may persist, given ongoing demographic changes. Having recovered in 2021 and 2022, labour productivity decreased in 2023 compared to 2022 (-0.8% per employed person and -0.6% per hour).

The shares of people aged 15-29 neither in employment, nor in education or training (NEET) and early school leavers declined further. In 2023, the NEET rate fell by 0.5 pp to 11.2%. The proportion of early school leavers experienced a marginal reduction, declining by 0.1 pp to 9.5%, with a rate of 7.7% for women and 11.3% for men. This evolution took place in the context of a further considerable decline in the basic skills of 15-year-old pupils in the EU.

46.6%

of adults participated in education and training in 2022

Adult participation in education and training remains well below the EU target for 2030. In 2022, 46.6% of people aged 25-64 in the EU participated in education and training activities, an increase of 2.9 pp compared to 2016. The participation rate for formal learning was 6.3%, with non-formal learning at 44%. Constraints on participation are predominantly attributed to the fact that potential participants do not see the need for specific training. Limited participation has also reflected insufficient supply or difficulties in accessing relevant quality training, scheduling conflicts, family responsibilities, and financial barriers. Lifelong learning and upskilling/reskilling efforts will be essential for the success of the green and digital transitions and for EU competitiveness.

Real gross disposable household income (GDHI) continued to recover in 2023, after declining in 2021. As inflationary pressures eased and nominal wage growth gained pace in 2023, real GDHI was 1.8% higher in Q4 2023 compared to Q4 2022. Increases in real household income were largely due to improvements in the real compensation of employees and self-employed people. Despite only modest increases in electricity prices and a decrease in gas prices, the recovery of households' purchasing power continued to be held back by the still high inflation rate of essential items, such as food, clothing and rent.

In 2023, the AROPE rate decreased slightly to

21.4%

At-risk of poverty or social exclusion (AROPE) decreased slightly in 2023 (2022 income), while income inequality remained broadly stable, and severe material and social deprivation (SMSD), as well asenergy poverty increased, in particular for low-income households. The AROPE rate decreased by 0.3 pp from 2021, but remained high for children, young adults, people with disabilities, non-EU citizens, those with low levels of educational attainment, and unemployed people. Tax-benefit systems contributed substantially to mitigating poverty and inequality. However, the loss of purchasing power due to high inflation in 2022 is better reflected in the modest decrease of real incomes and a slight increase in the SMSD rate (from 6.3% in 2021 to 6.8% in 2023) and in energy poverty as measured by the inability to keep home adequately warm (from 6.9% in 2021 to 10.6% in 2023).

With easing inflationary pressures, financial distress declined but remained still high for the lowest income quartile. At the end of 2023, the share of households reporting financial distress was particularly high for the lowest income quartile, at 28.3% in December 2023 (+0.9 pp compared to December 2022), 10 pp or more above the shares for other income quartiles. In the context of easing inflation, this level reached 27.6% in July 2024 (-0.7 pp compared to one year before).

Having slowed in 2021, social protection benefit expenditure rose strongly in real terms in 2022 in response to the cost-of-living crisis. In 2022, social protection benefit expenditure grew compared to 2021 (+2.7%), except for unemployment benefits. Tax-benefit systems played a large role in supplementing people's market income in 2023: the average share of benefits (excluding pensions) in individuals' full disposable income was higher than before the onset of the COVID-19 pandemic (8.3% in 2023, compared to 7.1% in 2019). In the context of high financial distress experienced by households in the lowest income deciles, this highlights the importance of social protection systems and government intervention in buffering the financial impact of crises on households.

CHAPTER 2: SOCIAL CONVERGENCE IN THE EU: TAKING STOCK

Upward economic and social convergence is essential for European integration. It implies both an improvement in socioeconomic indicators at EU level and a reduction in disparities between countries or regions. Convergence also entails poorer performers catching up with other countries or regions. ESDE 2024 examines various dimensions of convergence, covering developments since 2007, particularly from 2014 to 2023. This period was chosen to follow previous research documenting the setbacks to long-term convergence posed by the 2008 financial crisis.

Strong economic performance contributed to the catching-up of central and eastern Member States and to some convergence overall. Since 2014, GDP per capita in the EU increased at a faster pace than in previous years. After years of stable convergence, changes in national and regional variation in GDP per capita were mixed, but there is clear evidence of catching-up by central and eastern Member States. Disparities in household incomes narrowed across countries and displayed some catching-up. In the euro area, household wealth grew by over 20% between 2017 and 2021, with top-earners benefiting the most from this growth.

Between 2008 and 2023, employment in the Member States converged upwards

Labour market outcomes converged upwards over the last decade. Following the downturn during the financial crisis, the employment rate in the EU rose by almost 8 pp between 2014 and 2023) while the unemployment rate declined by 5 pp, with youth unemployment declining by almost 10 pp. NEET and youth unemployment rates also improved. The variation in these labour market outcomes across Member States and regions declined sharply, pointing to upward convergence, supported by the catching-up of poorer performers. Nevertheless, differences across countries and regions remain sizeable.

Labour market developments show upward convergence in gender equality in the EU, although progress is slowing. The gender employment gap declined from 16 pp in 2007 to 10.2 pp in 2023 but most of that reduction was achieved prior to 2014. Persistent gender segregation in the EU labour market and differences in the career trajectories of mothers and fathers remain stumbling blocks to further progress. Women remain more involved than men in housework and childcare responsibilities. More women than men do housework (63 % compared to 36 %) and care for children (34% to 25%) on a daily basis. Both the gender care gap and its variation across countries have been stable over time. This is linked to limited participation of small children in early childhood education and care (ECEC) in the EU. Currently, around 37% of children aged 0-2 participate in ECEC, with the EU aiming to reach 45% participation by 2030, in line with the revised Barcelona Targets.

Cross-country differences in labour market outcomes are linked to several factors, including differences in human capital development that affect the skill supply. The share of the EU population attaining tertiary education has grown sharply, from 29% in 2007 to 43.9 % in 2023, with considerable variation between national rates, ranging from 22.8% to 66% in 2023. Over the same period, disparities expanded in adult learning participation and to a minor extent in the development of basic digital skills. Some low-performing countries caught up with others in adult learning participation, but there is no evidence of catching-up in tertiary education attainment.

From 2015 to 2023, poorer performers caught up strongly on AROPE rate, GDP and GDHI

The at risk of poverty or social exclusion rate has converged for both adults and children. The AROPE rate at EU level decreased from 24% in 2015 to 21.4% in 2023 for the population as a whole. During the same period, the share of children at risk of poverty or social exclusion aged less than 18 years declined from 27.4% to 24.8%. Differences in AROPE rates (and its components) decreased across Member States and regions, with a prominent catching-up of the poorest-performing countries. Improvements in AROPE rates (and employment outcomes) despite the COVID-19 pandemic, energy and geopolitical shocks reflect the effectiveness of the exceptional support measures adopted by Member States and the EU. Nevertheless, differences across Member States in AROPE rates remain considerable. In 2023, national AROPE rates ranged from ca. 12% to 32% (10.7% to 39% for children), highlighting a clear risk that certain population groups could be left behind.

Convergence between Member States does not necessarily mean convergence at regional level within Member States. Tertiary education attainment, for example, diverged within 16 of the 18 Member States analysed. These developments stemmed from sharp increases in capital regions due to the concentration of universities, high demand for tertiary-educated workers, and associated wage premiums. By contrast, a lack of tertiary education opportunities and an outflow of highly qualified workforce posed challenges for some less urban or more rural regions, contributing to (risks of) talent development traps. Adult education participation also diverged between regions in the majority of Member States analysed, while developments in NEET rates were mixed.

60% +

of EU population reject the stereotype that women are more interested in home and children than in paid work

Progress towards gender equality is supported by increasingly positive attitudes towards women's paid work, although significant differences persist across countries. More than 60% of the EU population reject the stereotype that women prefer being at home over paid work, compared to less than 40% in 1990. The prevalence of work equality-based beliefs varies between countries, reaching over 80% in northern Member States and ranging between 30 and 60% in central and eastern Member States.

The EU promotes upward socioeconomic convergence through investment and reform initiatives. As enshrined in the Treaty, [1] a major goal of the EU is to ensure closer coordination of economic policies and sustained convergence of Member States' economic performance. Since its establishment in 1957, the European Social Fund (ESF) (European Social Fund Plus (ESF+) since 2021) has promoted convergence and cohesion across countries and regions, with the specific objective of stimulating growth and employment in the least-developed regions. Furthermore, the Recovery and Resilience Facility (RRF), which provides EUR 648 billion (at 2022 prices) to Member States for implementing reforms and investments making their economies and societies more sustainable, resilient and prepared for the green and digital transitions, is also contributing to promoting social cohesion and convergence in the aftermath of the Covid-19 pandemic[2]. Efforts to foster social convergence and well-being are also specifically considered in the European Pillar of Social Rights and its action plan, and are monitored in the context of the European Semester for economic and social policy coordination, the EU's multilateral surveillance framework. A number of policy initiatives have been adopted under the Pillar, including a Directive on adequate minimum wages, a Recommendation on adequate minimum income, the European Skills Agenda, the reinforced Youth Guarantee, and the Child Guarantee. Recently, efforts to monitor challenges to social convergence and to identify related policies have gained prominence within the European Semester, notably through an analysis based on the principles of a Social Convergence Framework, building on existing tools such as the Social Scoreboard.

Social dialogue remains an effective way of improving living and working conditions, which can support upward social convergence. It helps to raise productivity, ensures social fairness, improves the quality of the working environment, and fosters democracy at work. Social dialogue is promoted in the 2022 Directive on adequate minimum wages, which requires Member States with a collective bargaining coverage below 80% to establish enabling conditions and promote an institutional framework that fosters strong social dialogue in wage-setting and collective bargaining. The 2023 Council Recommendation on strengthening social dialogue in the European Union seeks to support Member States in promoting social dialogue and collective bargaining at national level. [3] In January 2024, the Val Duchesse Social Partners

(1) See the most recent consolidated version of the TFEU at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02016E%2FTXT-20200301

(2) Please see Mid-term evaluation of the Recovery and Resilience Facility (RRF), https://commission.europa.eu/about-european-commission/departments-and-executive-agencies-old/economic-and-financial-affairs/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities/mid-term-evaluation-recovery-and-resilience-facility-rrf_en . EU Member States can also obtain tailor-made technical expertise to design and implement reforms from the Technical Support Instrument (TSI), whose support does not require national co-financing. Its budget in the 2021-2027 financing period is ca. EUR 865 million. See Regulation (EU) 2021/240 of the European Parliament and of the Council of 10 February 2021 establishing a Technical Support Instrument at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2021:057:FULL&from=EN

(3) Council Recommendation of 12 June 2023 on strengthening social dialogue in the European Union, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C_202301389

Summit gave new impetus to social dialogue, with the European Commission committing to launching a Pact for European Social Dialogue and establishing a dedicated European Social Dialogue Envoy.

CHAPTER 3: THE ROLE OF SOCIAL INVESTMENT

Social investment entails reforms and investments that contribute to higher productivity and prosperity, alongside better social outcomes, fostering upward social convergence. While there is no commonly agreed definition of social investment yet, this report considers social investment as public spending related to investments and reforms that, on top of pursuing social objectives and thereby fostering upward social convergence, are expected to produce returns in terms of economic growth through their impact on human capital and productivity, including via stronger innovative capacity and absorption of new technologies, and/or labour supply. Key areas include upskilling and reskilling, lifelong learning, active labour market policies (ALMPs), and early childhood education and care policies, which can be complemented by higher investment in affordable housing and social protection, among others**.** Returns on social investment are typically more substantial when they target early stages of life, such as ECEC, education and training. They also strongly depend on the efficiency of spending.

ECEC participation in the EU is improving, but several Member States still fall behind the Barcelona participation target of 45% for children aged 0-2. Low levels of participation in ECEC for some Member States call for higher investment. Analysis suggests that the additional yearly spending on ECEC needed to reach the EU Barcelona Targets by 2030 would amount to 0.085% of GDP at the EU level, more than EUR 11 billion. Children who can benefit most from attending ECEC, such as those from disadvantaged backgrounds, tend to participate least, with children facing different types of disadvantages having ECEC participation rates at least 10pp lower than those from non-disadvantaged backgrounds.

Deterioration in pupils' skills is associated with decreasing efficiency of spending on education

The efficiency of spending on education has decreased over time, accompanied by a worsening of pupils' basic skills. The 2022 Programme for International Student Assessment (PISA) study revealed a substantial deterioration in the basic skills of 15-year-olds in the EU since 2018. This can have an adverse impact on labour productivity and EU competitiveness, hindering wage developments over time. The efficiency of spending on school education per student also dropped sharply in 2022 and varied significantly across countries, underlining the relevance of factors such as quality of education in determining the effectiveness of investment in school education.

ESF+ investments in skills are projected to contribute to upward economic convergence

Effective investments in skills can yield positive long-term impacts on labour market outcomes and economic growth, contributing to upward socioeconomic convergence. Investments in skills through the ESF+ are projected to increase employment and GDP beyond the 2021-2027 programming period. A 0.1 pp increase in investment in the skills profiles of young unemployed people is expected to increase employment across all age groups by 0.25% and raise GDP by more than the original investment, by around 0.18% in the long run. These interventions are projected to lead to an initial catching-up among regions lagging behind in labour market outcomes and GDP, reducing disparities across regions and facilitating long-term economic convergence.

Investing in ALMPs can have positive effects on a broad range of labour market, social and economic outcomes, contributing to upward convergence in the EU. Simulations suggest that ESF+ investments in ALMPs in the 2021-2027 programming period could raise EU employment and GDP in the long term, promoting regional economic and social convergence, reducing disparities, and prompting catching-up effects. Impact evaluations of Member States' specific ALMPs found that training programmes, job creation schemes and wage subsidies are effective at increasing employment, earnings, and social outcomes, particularly among long-term unemployed people.

Other social policies complementing social investment can enhance convergence and reduce poverty. For example, housing allowances intended to compensate for housing costs and social housing were found to reduce the AROP rate, respectively, by 1.4 pp (in 2022) and 0.4 pp (in 2019). At the same time, investment in workforce upskilling and reskilling to support the green transition can improve convergence in labour market outcomes. Investments in affordable and sustainable mobility, food, energy and housing are crucial for equitable climate neutrality. By stabilising incomes, social protection systems can mitigate poverty particularly during times of economic downturn. Simulations show that the tax-benefit systems in the EU in 2022-2023 would have absorbed almost half of a hypothetical 5% reduction in market income through reductions in taxes and social insurance contributions and increases in means-tested social benefits.

The EU's commitment to high-quality investment and reform in employment and social areas is reinforced through a number of initiatives. Many were launched in the context of the European Pillar of Social Rights and its Action Plan. They are underpinned by EU funds, such as the European Social Fund+, the European Regional Development Fund, the RRF as well as the Technical Support Instrument. The reformed economic governance framework agreed by co-legislators on 24 February 2024 underlines the importance of sustainable and inclusive growth as a goal for macroeconomic policies, including upward convergence. More recently, the La Hulpe Declaration signed on 16 April 2024 amplified the relevance of the European Pillar of Social Rights as a compass guiding (social) investment and promoting upward convergence in working and living conditions. It also highlighted the need for timely and harmonised EU data and efforts to improve evidence-based policy-making.